

Protection for House Buyer: The Need for Insurance

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Abstract: There are many unanticipated risks that might take place in our life and that is included on our property and assets. One of the approaches in tackling risks issues in our daily life is by purchasing an insurance policy as risk is the basis of insurance. This research draw the attention of housing insurance policy provided in Malaysia as home is one of the mandatory needs for humans. Although, a house probably would be one of the most important and expensive investments average consumers will ever make, there is still lots of people who does not know about insurance in terms of the importance of insurance, types of insurance, benefits of insurances and also the main objective of the insurance itself. The rate and amount of insurance policy holders in Malaysia, especially among Malay Bumiputera is at the lowest level because of the lack of awareness about the importance of insurance itself. In order to ensure guarantee and security of house buyer in Malaysia, besides from all laws and regulations implemented by the government, other companies or banks can also provide insurances schemes in order to protect their houses from certain risks such as theft, fire and natural disaster. According to the General Insurance Association of Malaysia, there are generally three types of housing insurance schemes available in Malaysia namely the fire insurance policy, house owner's policy and house holder's policy or content insurance. The objectives of this research are to identify the level of awareness of house buyer regarding the housing insurance policy provided in Malaysia and to identify the reasons of house buyer in not taking the housing insurance policy provided in Malaysia.

Key words: House buyer, insurance, risk, disaster, schemes

INTRODUCTION

Risk is the basis of insurance. The Oxford Advanced Learner's Dictionary. defines risk as the "chance of failure or the possibility of meeting danger or of suffering harm or loss". Everyday many individuals, organizations, governments and businesses buy insurance to transfer the risk of facing an uncertain loss in exchange for paying a certain premium said (Surminski, 2013; Osman, 2012) stated that risk transfer is a risk management technique of passing the responsibility of risks to another party and risks can be transfer either through contracting or by insurance which changes an uncertain exposure to certain cost. Although, insurance is one of the system in reducing risk, transferring the risk might not necessarily reduce the effect the risk or the chances that it will occur but it will only passes the responsibility to another party. Although every person, business or organisation faces risk each day, a sound understanding of the concept of risk is the foundation upon which an insurance book should begin.

There are a few meaningful definitions of insurance according to different researchers before which are

"insurance is a risk transfer mechanism that the insured transfer from a state of uncertainty to a state of certainty at the certain cost of the insurance premium" (Dickson, 1983). "An effective mitigation measure to the risks whether they are at country, market or project level" (Wang *et al.*, 2004). "Insurance is an economic device whereby the individual substitutes a small certain cost (the premium) for a large uncertain financial loss (the contingency insured against) that would exist if it were not for the insurance" (Vaughan and Vaughan, 2007).

From the above definitions we can see that each definition are different to each other. According to Redja there is no single definition of insurance, however, one that captures the essential characteristics of a true insurance plan is provided by the commission on insurance terminologies of the American risk and insurance which defines insurance as follows: "insurance is the pooling of fortuitous losses by transfer of such risks to insurers who agree to indemnify insured's for such losses to provide other pecuniary benefits on their occurrence or to render services connected with the risk". (Vaughan and Vaughan, 2007) said that "the home is one

of the most important and probably the most expensive, investments that the average consumer will ever make.” It is vital for us to understand the protection needed to handle against the damages that might occurred to our dwelling because there are many unexpected risks that might take place in our life and that is included on our property and assets.

The homeowner’s policy is a product of the multiple line transition which resulted from the removal of the legal barriers that separated property insurance from casualty insurance and one of the significant effects of the multiple-line transition was the package policy in which property and casualty coverage are combined in a single contract as stated by Vaughan and Vaughan (2007). Meaning that it includes both property insurance and liability coverage with an indivisible premium and a single premium is paid for all risks. The cost of homeowner’s insurance often depends on what it would cost to replace the house and which additional endorsements or riders are attached to the policy.

The insurance policy is a legal contract between the insurance carrier (insurance company) and the named insured’s. It is a contract of indemnity and will put the insured back to the state he/she was in prior to the loss. Although, the homeowner’s policy does an adequate job of protecting the assets of persons eligible for coverage under the program, some properties are not eligible for a homeowner’s policy. Typically, claims due to floods or war (whose definition typically includes a nuclear explosion from any source) are excluded from coverage, among other standard exclusions (like termites). Special insurance can be purchased for these possibilities, including flood insurance. Insurance is adjusted to reflect the cost of replacement, usually upon application of an inflation factor or a cost index.

MATERIALS AND METHODS

Types of insurance policy for residential property in malaysia

Basic fire policy: This policy provides you with coverage against loss or damage to insured property (i.e., house, shop and factory) caused by fire, lightning or explosion.

House owner policy: This policy provides additional coverage compared to the basic fire policy. It may include loss or damage due to flood, burst pipes, etc. You must make sure that your property is adequately insured at all times, taking into account the renovations and enhancements made to your property. The sum insured should cover the cost of rebuilding your property in the

event of loss/damage. If your property is under financing, you should make sure that your financier has taken adequate coverage. Usually, the coverage arranged by the financier will be for the amount of loan taken. You may, therefore, want to take up a separate insurance cover to extend the coverage taken by your financier.

Strata-titled properties

Master policy and individual certificate of insurance: If you own a strata-titled property, e.g., an apartment, the company managing your apartment building (Management Corporation (MC) is required to take up insurance under a master policy. You must ensure that you get a copy of your individual certificate of insurance for your property to check the coverage taken up under the master policy by your MC.

Property under financing: If your apartment is under financing, the financier may require you to purchase another house owner policy to cover the loan taken. This will result in double-insurance. However, if your property is financed by a bank or finance company under the supervision of Bank Negara Malaysia (BNM), it has been agreed that your financier will not require you to purchase another insurance policy but it will accept the insurance policy purchased by the MC as evidence of insurance for your unit. However, the MC needs to comply with the terms and conditions required by the lending institution e.g., the insurance covers the minimum risks such as fire, subsidence and landslide.

House holder policy: This is a policy which covers your household contents and includes coverage for fatal injury to you as the insured. This policy does not cover damage to the house itself (Table 1).

Types of coverage by insurance:

- Fire, lightning, thunderbolt, subterranean fire
- Explosion
- Aircraft and other aerial devices and/or study dropped there from air
- Impact with any of the buildings
- For private dwellings, by any road vehicle or animals not belonging to or under the control
 - You or
 - Your family member
- For block of flats or apartments, by any road vehicle or animals not belonging to or under the control
 - You
 - Your agent or servant
- Any person resident on the private flats or apartments

Table 1: Type of policy in Malaysia

Type of policy	Basic fire	House owner	House holder
Loss/damage to building by fire, lightning and explosion caused by used for domestic purposes	✓	✓	✗
Loss/damage to building by aircrafts, road vehicles or animals, bursting or overflowing of water tanks or pipes, theft, windstorm, earthquakes and flood	✗	✓	✗
Loss/damage to households goods and personal effects as well as coverage for the insured	✗	✗	✓

- Bursting or overflowing of domestic water tanks, apparatus or pipes
- Theft but only if accompanied by actual forcible and violent breaking into or out of a building or any such attempt
- Hurricane, cyclone, typhoon, windstorm
- Earthquake, volcanic eruption
- Flood

Types of mortgage life insurance: Buying a home is a huge commitment and will take the average homeowner up to 35 year to fully repay. Hence, it should be protected even when you are no longer around. Providing a home for your dependent is a good thing but if the home loan is not settled in full, it can turn into a burden for your loved ones in the event of death or Total Permanent Disability (TPD). It is with these unfortunate circumstances in mind that most mortgage officers offer mortgage life insurance policy to home buyers. In the event of death or TPD, the policy frees the borrower's dependents from any debt as it is designed to pay off the remaining debt on repayment mortgages. In Malaysia, there are 2 types of mortgage life insurance available namely:

- Mortgage Reducing Term Assurance (MRTA) or Mortgage Decreasing Term Assurance (MDTA)
- Mortgage Level Term Assurance (MLTA)

MRTT/MLTT = Takaful equivalent

Mortgage Reducing Term Assurance (MRTA): Mortgage Reducing Term Assurance (MRTA) helps settle our housing loan in the event something happen to us. Although many people do not like about it, disability, illness or death can occur any time. MRTA will cover the unpaid portion of your loan if this happens. It gives us peace of mind and protects our family from losing a home. It provides coverage even during construction period. The premium is reasonable and it can even be financed by bank. It covers disability, illness or death and also total permanent disability. MRTA is a life insurance plan with

decreasing sum assured over time and it used just to cover your home loan owed to bank. This plan is usually offered by the bank you are getting the mortgage from, as it is used as protection for the bank in case of misfortunes that stop you from servicing the loan.

Mortgage Level Term Assurance (MLTA): On the other hand, MLTA is a slight variation from MRTA and offers an alternative for a borrower who is looking for a life insurance which offers protection plus savings and in some policies returns on the premium. Mortgage Level Term Assurance (MLTA) is a single premium group term life insurance plan specially designed to offset your outstanding loan in the event of Total and Permanent Disability or loss of life. This is a personal plan where you and your dependents are financially protected when you are no longer around or have lost the ability to generate income.

RESULTS AND DISCUSSION

Problem statement: Salleh (2003) stated in the the star on "Insurance plan for house buyers proposed", Former Deputy Minister in the Prime Minister's Department Senator Datuk Kayveas said that buyers were often left in the lurch and had to fend for themselves whenever there were problems involving developers handing over the properties on time. He said there were many instances where buyers were made to pay their housing loans before they could even occupy their homes. Thus he stated "it is the role of insurance in our everyday life to minimise risk and if it can be worked out, the financial burden of house buyers could be lightened," Nicholas Mun found that poor quality and shoddy workmanship are 2 issues the property industry has been wrestling with since the boom in mass housing began in the early 80s. As Nicholas Mun stated in new straits time on "towards Defect Insurance", the Federation of Malaysian Consumer Associations (Fomca) deputy president Marimuthu said, "most defects occur after the 18 month defect liability period. Such a move would be well-received by purchasers as they will know which party they can claim from when a defect occurs" Nicholas Mun added that purchasers are left without recourse for compensation, save for the long and expensive route of litigation.

Bakri and Amri (2015) stated in the Harian Metro on "Boleh Dianggap Pelaburan", Islamic Financial Consultant in Al-Falah Advisor, Ahmad Humaizi Mat Noor stated that society needs to believe that insurance or takaful is an investment and not just a sheer coverage. The owner of the residence should think about the risk of serious injury that might occur if there is no protection rather than

a loss of contribution to be paid every year. According to him, given the frequency of natural disasters in recent year, insurance companies and takaful operators need to be more aggressive in educating the public on the importance to take shelter and even if the companies have to bear additional costs but in the future it will not become a burden if the users know the importance of addressing the risk of natural disasters. "The area that is prone to natural disasters should be made a condition for it to be compulsory to have a protection from natural disasters, especially to those who make the housing financing to the banking institutions" Ahmad Humaizi Mat Noor said. Then he also added that not many people have the insurance coverage policy to protect their assets from natural disasters because it is not a compulsory requirement by the loan lender or the finance institutions to purchase any homeowner's protection. House buyer believe that the basic fire insurance policy provided by the bank is adequate enough to protect their home and they do not require any protection from natural disaster.

Ahmad Humaizi Mat Noor said many homeowners believe that in the event of natural disasters, it will not damage their property. Normally, when the house buyer want to decide whether to take protective measures or not, they tend to refer to our country's past experiences and the problem with our society is that they made the decision based on the thinking that a worse natural disasters to our property will not happen to us now due to the fact that the last massive floods happens about 40-50 year ago which was in Kelantan that occurred in 1967. Natural disasters in Malaysia showed an increase since 2000. For example, floods in Johor in December 2006 and January 2007. In December 2014 there has been massive flooding in Kelantan, Terengganu and Pahang which destroys houses. This incident shows the occurrence of natural disasters in Malaysia is increasingly critical. Dwellings requiring insurance coverage to reduce risks and burdens we would face. Estimated average annual rainfall in Peninsular Malaysia received around 2,500 mm has placed Malaysia among the countries that receive the most rainfall per year.

According to the Malaysian crime statistics, "housebreaking and theft" is one of the most frequent crime types after "theft of motorcycles" in Malaysia and the trend is similar in the state of Penang. There are several cases reported where the homeowner suffered losses due to housebreaking and theft cases. Kamal, stated in Harian Metro on "Pecah masuk rumah jiran", Kajang District Chief Police, ACP Richard Willey said the

housebreaking and theft victim's loss are about RM1,000 before she made a report in the nearest police station before the suspects that aged between 28-35 year were arrested.

Zailan, stated in Sinar Harian. on "buru suspek kes pecah rumah" that "police are hunting 2 suspects in a housebreaking and theft in Kuala Perlis, involving losses of about RM 31,000 early yesterday morning". If the victims are protected with housing insurance coverage they would not suffered the loss due to this unexpected occurrence.

In Malaysia, the number of protection in average is lower than RM 50,000. With the given cost of living in 2015, most people are lack of insurance. Nevertheless, there is still lots of people who does not know about insurance, in terms of the importance of insurance, types of insurance, benefits of insurances and also the main objective of the insurance itself. The rate and amount of insurance policy holders, especially among Malay Bumiputera is at the lowest level because of the lack of awareness about the importance of insurance itself. Seen on the penetration rate of 12% for the year 2012 we see good potential in untapped markets with 88% of the target market Muslim Malays in Malaysia. Nik Faizal Nik Fauzi, bachelor of Architecture UM (Al-Faisal Agency) Sinar harian 25 Jun 2013. Received 1.5M Premium on 2012/2013.

Other than that Daud stated that according to the new regulations the Central Bank of Malaysia, commercial banks that issue mortgage loans to the customers can no longer force the customers to take home insurance policy proposed by the bank. The impact of the new regulations of the Central Bank has led to too many people that are making mortgage loans but do not realise that they do not have any home insurance policy for the house that they had purchase. There are many types life insurance. Each of them offers a different components (the sum insured, savings and components dividends, cash value, unit and others) and different premium. Buying the wrong plan for the wrong purpose is bound to cause a high price to features that are not required.

Significance of research: Shelter is first and foremost, a basic human need. Without a shelter, society cannot feel secure against the elements or each other. Houses are investment assets that grow in value over time and are therefore a means of saving and wealth accumulation. However as a human, it is normal for us to often face all kind of challenges. It is included challenges on our current assets and we need to know how to prevent the

risk from happen. It is undeniable that insurance is one of the strategy in risk transferring that involves the contractual shifting of a pure risk from one party to another. Based on the introduction and problem statement mentioned earlier with the given cost of living in 2015, most people are lack of insurance. The rate and amount of insurance policy holders, especially among Malay Bumiputera is at the lowest level because of the lack of awareness about the importance of insurance itself. There are many cases where the homeowners suffered losses due to unexpected occurrence such as natural disaster or housebreaking theft and the buyers were often left in the lurch. Most people do not have the extended insurance coverage policy to protect their assets from natural disasters or to covers their household content because it is not a compulsory requirement by the loan lender or the finance institutions to purchase any homeowner's protection. House buyer believe that the basic fire insurance policy provided by the bank is adequate enough to protect their home and they do not require any other extended coverage. By virtue of the problems mentioned earlier, a research is needed to identify the level of awareness of house buyer regarding the housing insurance policy provided in Malaysia especially among the Bumiputera and to identify the reasons of house buyer in not taking the housing insurance policy provided in Malaysia in order for insurance companies and takaful operators to take a necessary actions in enlighten the public on the importance of buying an insurance policy coverage.

CONCLUSION

A further research on protection for house buyer. The need for insurance is beneficial as risk is part and parcel of our daily life. We need to find out the way to protect ourselves in the case of misfortune. This is where insurance came to play an important role as a part of risk management in our life.

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